

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

THE AT-RISK CHILD CARE PROGRAM



AUGUST 1993

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AUGUST 1993 OEI-02-92-00140

EXECUTIVE SUMMARY

PURPOSE

To determine the extent and nature of States' participation in the At-Risk Child Care program and to describe their problems and successes with it.

BACKGROUND

The At-Risk Child Care program provides child care services for children (usually under age 13) of low-income working families not receiving Aid to Families with Dependent Children (AFDC), who need child care in order to accept or maintain employment, and who would otherwise be at risk of becoming eligible for AFDC.

The program was enacted in November 1990, but was made effective October 1, 1990. Final regulations give States considerable latitude in implementation. For example, they can define "low income" and "at risk." Their participation is optional.

This program is one of several overseen and funded by the Administration for Families and Children (ACF) in the Department of Health and Human Services (HHS). The other child care programs include AFDC Child Care, Transitional Child Care, the Child Care and Development Block Grant and a portion of the Social Services Block Grant used for child care. Funding for the At-Risk program was \$300 million in each of Fiscal Years (FY) 1991 and 1992, and represented 15 percent of the \$2.1 billion in total HHS funding for child care programs in FY 1992. The ACF has encouraged States to coordinate all the funding streams for child care so as to provide "seamless" service to families. This means providing eligible parents access to and payment for child care services and programs which respond to parents' child care needs, even as eligibility changes over time; services are provided without the necessity of changing the child care provider.

METHODOLOGY

We selected a purposive sample of 16 States: 12 drawn from those 45 with approved At-Risk State plans and with At-Risk Child Care expenditures qualifying for funding in FYs 1991 and 1992; two from three with approved State plans but with no expenditures qualifying for funding; and two of three which did not submit State plans for approval. We then selected respondents purposively and interviewed them by phone. They included State officials, local agency representatives, child care providers, and representatives of advocacy groups. We analyzed, both qualitatively and quantitatively, State and local documents and records and key interview responses by all respondent groups.

FINDINGS

DESPITE SLOW START, MOST SAMPLE STATES NOW EXPECT TO MAKE FULL USE OF AVAILABLE AT-RISK CHILD CARE FUNDS

Seven of the 13 sample States with At-Risk Child Care programs drew down Federal funds in FY 1991. The number increased to 12 of 13 in FY 1992, and all but 2 States report serving more children in FY 1992 than in FY 1991. States initiated or increased their spending in FY 1992 primarily because their legislatures made initial or additional matching funds available. Twelve of the sample States with At-Risk programs expect to qualify for all available Federal funds in FY 1993.

STATES REPORT TARGETING FAMILIES MOST AT RISK OF GOING ON WELFARE

The 13 sample States with At-Risk programs have set a wide range of income eligibility scales for the At-Risk Child Care program, with ceilings for a family of four ranging from \$17,982 to \$40,491. However, States believe they are serving the families in greatest need of child care. In all 13 States, respondents estimate that most of the families actually receiving services have annual incomes between \$10,000 and \$15,000.

STATES ARE COORDINATING THE AT-RISK CHILD CARE PROGRAM WITH OTHER SUBSIDIZED CHILD CARE PROGRAMS; SOME CONCERNS EXPRESSED

States believe they are coordinating the different child care funding streams. However, many State, local and advocate respondents feel that States are accomplishing this despite funding and statutory variations among Federal funding streams which make them fragmented, inconsistent and difficult to administer.

COMMENTS

We shared a copy of the draft of this report with ACF and subsequently met with ACF representatives to discuss their comments. All of ACF's comments were technical in nature, and corresponding changes have been incorporated into this final report.

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INTRODUCTION

PURPOSE

To determine the extent and nature of States' participation in the At-Risk Child Care program and to describe their problems and successes with it.

BACKGROUND

The At-Risk Child Care program provides child care services for children (usually under age 13) of low-income working families not receiving Aid to Families with Dependent Children (AFDC), who need child care in order to accept or maintain employment, and who would otherwise be at risk of becoming eligible for AFDC. States' participation is optional.

Federal Programs for Child Care

The At-Risk Child Care program is one of several programs overseen and funded by the Administration for Families and Children (ACF), Department of Health and Human Services (HHS), to meet the child care needs of low-income families. The other child care programs ACF oversees include:

- the AFDC Child Care program, which supports current AFDC recipients' efforts to participate in approved education and training activities to help them become self-sufficient and leave welfare. Funds are also available to AFDC recipients in families who need child care in order to accept or maintain employment;
- the Transitional Child Care program, which provides up to 12 months of child care for recipients who leave AFDC due to increased income from employment or the loss of income disregards due to established time limitations;
- the Child Care and Development Block Grant program, which funds efforts to increase the availability, affordability and quality of child care, and provides additional funding for child care services; and
- the Social Services Block Grant program, which is intended to serve a broad range of social service needs and is used by some States, in large part, to provide child care services.

Each of these programs constitutes a distinct HHS funding stream for child care services. According to ACF, in FY 1992 the Child Care and Development Block Grant was funded at \$825 million (40 percent); the exact child care portion of Social Services Block Grant funding is unknown but is estimated at \$510.6 million (24 percent); and the AFDC and Transitional Child Care programs at \$437.9 million (21 percent). The At-Risk Child Care funding represented the smallest portion (15 percent) of the \$2.1 billion in total HHS

funding. The ACF estimates over \$24 billion in national spending for child care for all children by all sources.

The AFDC and Transitional programs require a State to use its funds as a match for Federal funds at the State's Federal Medical Assistance Percentage rate. This rate is determined by formulae using Department of Commerce statistics for State and national per capita income.

The ACF has encouraged States to coordinate all the funding streams for child care so as to provide "seamless" service to families. Basically, this means providing eligible parents access to and payment for child care services and programs which respond to the parents' child care needs, even as eligibility changes over time; services are provided without the necessity of changing the child care provider.

The At-Risk Child Care Program

Legislation and Regulations. The At-Risk Child Care program was part of the Omnibus Reconciliation Act of 1990 (OBRA 90). Section 402(i) was added to title IV-A of the Social Security Act. Legislation was signed in November 1990, but was effective October 1, 1990. The Family Support Administration, ACF's predecessor, sent instructions to States on how to apply for At-Risk Child Care funding in December 1990. On June 25, 1991, ACF published a Notice of Proposed Rulemaking. States participate in the program when they submit an At-Risk Child Care plan as an amendment to the State Supportive Services Plan, and receive approval by the HHS Secretary.

The At-Risk Child Care final regulations, published on August 4, 1992, give States considerable latitude in implementation. For example, they are permitted to define "low income" and "at risk." Low income may be set at a percentage of the Federal poverty level, a percentage of the State's median income, or some other calculation. At risk may be defined in terms of low income alone, or in combination with other "risk" factors which the State may establish.

State Administration. The State agency responsible for administering or supervising the State's title IV-A Plan is also responsible for the At-Risk Child Care program. This agency must submit its plan to the Secretary for approval, as an amendment to the State Supportive Services plan.

Funding. Federal funding for the At-Risk Child Care program, in the form of Federal Financial Participation, was \$300 million in each of Fiscal Years 1991, 1992, and 1993. A State's share of the national total of available funds for a fiscal year is based on the ratio of the number of its children under 13 to the national total of children under 13. According to ACF this age limit is used because it conforms to age limits for the AFDC, Transitional and Child Care Development Block Grant programs. Also, each State defines its At-Risk population, making national, low-income population measures impractical. States must expend their funds in cash at their Federal Medical Assistance Percentage

rates, in order to receive FFP. These expenditures are reported to ACF on a quarterly basis.

For its first year, a State may request Federal funds up to its limitation. The limitation represents the State's share by formula of the amount appropriated for the fiscal year. If a State does not claim the full limitation, then the difference between the limitation and the total claims paid for the fiscal year is added to the next year's limitation. The sum of the second year's limitation and the excess funds from the first year comprises the State's maximum grant. A State may claim its full maximum grant for the second year.

States may add to each year's limitation only the amount that represents the difference between the prior year's limitation and the total in claims paid for the prior year. This ensures that the statutory requirement is met, i.e., that excess funds for one fiscal year are only used for the immediately succeeding fiscal year.

Family Contributions. The State IV-A agency must establish a sliding fee formula, based on the family's ability to pay, which provides for contributions from each family towards the cost of care. The agency may waive contributions if a family's income is at or below the poverty level for a family of the same size. States have the option of collecting fees from families or of having the family pay fees directly to providers.

Arrangements for Services. A State may use any of several methods of payment to provide care, while allowing the family the opportunity to choose the arrangement, if more than one category of child care is available. Options include child care centers and family child care providers.

METHODOLOGY

We selected a purposive sample of 16 States: 12 drawn from those 45 with approved At-Risk State plans and with At-Risk Child Care expenditures qualifying for funding in FYs 1991 and 1992; two from three with approved State plans but with no expenditures qualifying for funding; and two of three which did not submit State plans for approval. This purposive sample permitted a selection of small, medium and large States with varied patterns of participation and expenditures. The States with approved plans and with FFP drawn are Arkansas, California, Connecticut, Indiana, Massachusetts, Minnesota, New York, North Carolina, Oklahoma, South Dakota, Texas, and Utah. Louisiana and West Virginia were approved for funding in FY 1991 and FY 1992 but did not draw down funds; Louisiana has not started an At-Risk Child Care program, while West Virginia implemented its program in the first month of FY 1993. It has not yet been able to draw down any Federal funds for At-Risk Child Care because that program is on a credit line which is experiencing financial difficulty. Michigan and Tennessee did not apply for funding in FYs 1991-1992. We selected the latter four States in order to learn why they drew down no FFP or chose not to apply. The sample States' expenditures qualified for a total of \$172.4 million in FFP for both FYs, representing 45 percent of all qualifying expenses for that period. Twelve of the 13 States with At-Risk programs have

implemented them Statewide; the other State has several counties which chose not to have At-Risk programs.

All 16 sample States were contacted in March 1993 to learn the basis for their decisions regarding the program. They provided related data and documents at our request. From the 13 States with At-Risk programs, we selected a total of 92 respondents purposively and interviewed them by phone during April, May, and June 1993. They included 16 State officials, 16 local agency representatives, 40 child care providers, and 20 representatives of advocacy groups.

We analyzed, both qualitatively and quantitatively, State and local documents and records and key interview responses by all respondent groups.

FINDINGS

DESPITE SLOW START, MOST SAMPLE STATES NOW EXPECT TO MAKE FULL USE OF AVAILABLE AT-RISK CHILD CARE FUNDS

Only seven of the 13 sample States with At-Risk programs drew down Federal At-Risk funds in FY 1991. However, this increased to 12 States in FY 1992. The total amount of At-Risk expenditures by the 13 States in FY 1991 was \$46.1 million, which qualified for 47 percent of available Federal funds. In FY 1992, expenditures nearly tripled, resulting in the use of 76 percent of available funds for both years. (See Table 1 below.) Eleven of the 12 States with data report serving more children in the At-Risk Child Care program in FY 1992 than in FY 1991. One State reports serving the same number.

The experience of the sample States is similar to the national experience. For FY 1992, 48 State At-Risk Child Care programs (including the District of Columbia) were approved for funding. According to ACF, through May 1993, 45 States have reported expenditures eligible for \$406.1 million in FFP. This represents 68 percent of the \$600 million available for FYs 1991-92. Most of these expenditures (\$309 million) took place in FY 1992.

For the first half of FY 1993, all sample States with At-Risk programs report expenditures totalling \$56.5 million. All but one of these States expect to qualify for the full amount of Federal funds in FY 1993.

A number of factors appear to have contributed to the slow start. As noted earlier, At-Risk Legislation was signed in November 1990, but was effective October 1, 1990. The Family Support Administration, ACF's predecessor, sent instructions to States on how to apply for At-Risk Child Care funding in December 1990. On June 25, 1991, ACF published a Notice of Proposed Rulemaking. Thus, States could not implement the At-Risk Child Care program when it was first effective. States also needed time to appropriate State matching funds, further delaying implementation. According to most

respondents, States initiated or increased their expenditures in FY 92 primarily because their legislatures made initial or additional matching funds available. This allowed them to establish or expand their programs. In some States with county-administered programs, some counties experienced further delays because States were slow to disburse At-Risk Child Care funds to them.

The three sample States without At-Risk programs cite a lack of available State funding as the primary reason for not implementing a program in FY 1991 and FY 1992. However, one has had its program approved and is providing services; another is awaiting ACF approval of its program. The third continues to lack matching funds and does not expect to have an At-Risk program in FY 1993.

STATES REPORT TARGETING FAMILIES MOST AT RISK OF GOING ON WELFARE

The 13 sample States with At-Risk programs have set a wide range of income eligibility scales for the At-Risk Child Care program. Their ceilings for a family of four range from \$17,982 to \$40,491. (See Table 1 below.) However, States believe they are serving the families in greatest need of child care. In all 13 States, respondents estimate that most of the families actually receiving services have annual incomes between \$10,000 and \$15,000. One State respondent says that families at the high end of the income eligibility scale do not even apply for At-Risk child care. As a family's income increases, it is required to pay a greater percentage of its child care fees.

States have set their income eligibility ceilings for different reasons. For example, some with high eligibility ceilings chose a percent of their State median income which matched the liberal rate previously set for their own State-subsidized child care programs. Most States also have the same income eligibility levels for their At-Risk and block grant child care programs. Another State chose its level to allow families to remain eligible if their income increased, but they still needed some subsidized child care. Others established their levels because of the high cost of living, coupled with high child care costs, in their States. In two of the latter States, income eligibility ceilings are high, but families must have incomes of under \$27,000 to establish initial eligibility. (See Table 1 below.)

States have made various efforts to serve the neediest families, as illustrated by their experience with waiting lists for child care and outreach activities:

1. Eight States have general waiting lists for all of their subsidized child care programs with eligible At-Risk Child Care families currently on them. Seven of these give priority to what they deem to be the most vulnerable families. In four of these States, families previously on AFDC, including former Transitional Child Care recipients and caretakers without a high school diploma or GED, are placed on the top of the list; those families not previously enrolled in any subsidized child care program are given lower priority. In the three remaining States with county-

TABLE 1
SAMPLE STATE CHARACTERISTICS RANKED BY INCOME
ELIGIBILITY CEILINGS FOR A FAMILY OF FOUR

S T A T E	EXPEND- ITURE % 91	EXPEND- ITURE % 92	FMAP %	SOURCE OF BASE INCOME AND %	INCOME ELIGIBILITY CEILINGS
NC	100	60	66	57% SMI	\$17,982#
AR	0	13	74	\$1,538/MO	\$18,460#
OK	0	200*	70	\$1,674/MO	\$20,088#
WV	0	0	77	60% SMI	\$20,200#
SD	0	13	71	150% FPL	\$21,600#
TX	25	67	64	150% FPL	\$21,600#
UT	75	22	75	59% SMI	\$22,793#
IN	0	5	63	190% FPL	\$27,360#
NY	100	100	50	200% FPL	\$28,800#
MN	50	100	54	75% SMI	\$32,273#
CA	0	200*	50	84% SMI	\$37,955#
CT	75	125*	50	50% SMI	\$26,965++ \$40,448
MA	100	100	50	50% SMI	\$26,994++ \$40,491

Eligibility in these States begins at or below these income levels and ends when these levels are exceeded.

++ The income for a family of four must be below these levels to establish eligibility; thereafter, income may increase to the second figure before eligibility may be terminated.

* Includes prior year FFP not previously matched.

FMAP: Federal Medical Assistance Percentage (matching) rate: averaged for the two years and rounded

SMI: 1992/1993 State Median Income - family of four

FPL: 1992 Federal Poverty Level - family of four: \$14,400

administered programs, priority was given to the neediest families in some counties where former Transitional Child Care recipients and low-income families are targeted. A State respondent underscores this priority process, stating: "We always try to reach the low-income families just off or recently off AFDC. They get first priority for this program." Another State respondent offers: "It's my sense that most At-Risk families are former TCC recipients."

2. Respondents from 12 of the 13 States mention that they advertise their subsidized child care programs, including the At-Risk program, primarily to the neediest families. For example, they focus their publicity efforts on low-income communities, welfare offices and Food Stamp offices.

STATES ARE COORDINATING THE AT-RISK CHILD CARE PROGRAM WITH OTHER SUBSIDIZED CHILD CARE PROGRAMS; SOME CONCERNS EXPRESSED

States report that they are providing seamless child care services

All of the State respondents from the 13 States with At-Risk Child Care programs believe that their States are coordinating the different child care funding streams. Five States have established either a single government unit for the different child care programs or combined the administration of them. Four States have promoted good relations between different State agencies and with child care providers and advocates. For example, they have established State child care task forces or cabinets. One State respondent says, "We brought partners together that never really talked before."

States' administrative processes have also enhanced coordination. The designated State IV-A agency directly administers the At-Risk Child Care program in six of the 13 States; in the remaining seven, the agency contracts with outside agencies, including other State offices and resource and referral agencies, to administer part or all of the program. In one State, child care provider organizations operate the program on a day-to-day basis under contractual arrangements with the State. In another, each county has a local council, comprised of schools, local government, nonprofit agencies, providers and consumers, which conducts needs assessments and develops a plan of action. These councils, directly or by contract, also coordinate the different child care funding streams, determine eligibility and process applications.

Most States utilize the same policies on income eligibility, payment rates and sliding fee scales for At-Risk Child Care, and Child Care Development and Social Services Block Grants. (See Table 2 below). Families, therefore, are able to retain or change providers without being burdened with how, and by whom, their child care is subsidized. One State respondent says, "We've attempted to make funding streams invisible to families and providers."

TABLE 2
STATES' POLICIES ON CCDBG AND SSBG INCOME ELIGIBILITY, PAYMENT RATES,
AND FEE SCALES COMPARED WITH THOSE FOR AT-RISK CHILD CARE

POLICIES	STATE RESPONSES												
SAME AS AT-RISK?	AR	CA	CT	IN	MA	MN	NC	NY	OK	SD	TX	UT	WV
CCDBG INCOME ELIGIBILITY	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
CCDBG PAYMENT RATES	Y	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
CCDBG FEE SCALES	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
SSBG INCOME ELIGIBILITY	Y	NA*	Y	Y	NA	Y	Y	N	Y	NA	Y	Y	Y
SSBG PAYMENT RATES	Y	NA	Y	N	NA	Y	N	Y	Y	NA	Y	Y	Y
SSBG FEE SCALES	Y	NA	Y	Y	NA	Y	Y	Y	Y	NA	Y	Y	Y

* The designation "NA" represents "Not applicable," as the State does not use SSBG funds for child care.

Several States also sequence the different child care funding streams. Four States use all of their block grant money before drawing down funds for matching programs. Eight require that families use Transitional Child Care before receiving At-Risk services. Several of these eight States automatically inform Transitional Child Care recipients that they are eligible for At-Risk services once their Transitional benefits have expired.

Concerns exist about the variation among different child care funding streams

While States believe they are effectively coordinating the At-Risk Child Care program within their States to provide seamless services, it is not without difficulty. Many State, local and advocate respondents feel that States are accomplishing this despite funding and statutory variations among Federal funding streams which make them fragmented, inconsistent and difficult to administer.

COMMENTS

We shared a copy of the draft of this report with ACF and subsequently met with ACF representatives to discuss their comments. All of ACF's comments were technical in nature, and corresponding changes have been incorporated into this final report.